

# **Minutes Of The Board Of Trustees City Of Cincinnati Retirement System January 6, 2005**

The Chairman called the meeting to order at 1:30 p.m. with the following members present:

V. Daniel Radford, Chairman  
William Moller, Secretary  
Valerie Lemmie, City Manager  
Charlie Luken, Mayor  
Brian Pickering  
Michael Rachford  
Ely Ryder  
John Cranley

## **Member/s Absent**

Joe Harrison  
Marijane Klug  
John Bowling

The Chairman called for a motion to approve the minutes of the December 2, 2004 Board Meeting. Mr. Pickering requested a change be made to the minutes to reflect the correction of the statements made by Mr. Bill Reeves. The Chairman asked Mr. Pickering to revise the minutes and that the minutes be held for approval at the next Board Meeting. Mr. Pickering agreed to make the revision to the minutes.

## **BENEFITS COMMITTEE**

Mr. Pickering reported that the Benefits Committee met on January 5, 2005 at 1:30 p.m. in Committee Room B. Mr. Pickering reported that there was 1 disability retirement applicant, but the applicant died before the committee meeting. As a result of the death of the member, the optionee is automatically eligible to receive the disability pension benefit selected by the member prior to her death. Mr. Pickering submitted the following members requests for retirement to the Board for approval.

1. Application for Ordinary Retirement January 2, 2005: Total – 25

<b>NO.</b>	<b>NAME</b>	<b>DEPARTMENT</b>
35971	Robert Harris	Parks
37184	Mark Baker	Health
37766	Michael Adams	Recreation
38658	Lowery Clark	Health
39887	Lawrence Reisert	Finance
40707	Joseph Moats	Water Works
41053	Diann Hamant	Recreation
41763	John O'Banion	Water Works
41916	Joan Sweeney	University Hospital
41970	William Rich	Water Works
42198	Jacqueline Anderson	Health
42255	Nina Smith	Health
42258	Linda Hill	Water Works
42468	Raymond Stark	Recreation
42807	Karen Jetter	University Hospital
42916	David Lovett	Police
43797	William Meissner	University Hospital
43994	Rodney Prince	Human Resources
44872	Calvin Owens	Water Works
44880	Amiel Brown	Water Works
44993	Chester Conley	Health
50898	Paul Knue	Transportation & Engineering
49450	Marcia Shortt	Transportation & Engineering
50936	Peter Clark	Convention Center
55329	Clare Cox	Income Tax

2. Application for Retired Members Deaths: Total – 12

3. Application for Deferred Retirement Benefits: Total – 2

<b>NO.</b>	<b>NAME</b>	<b>DEPARTMENT</b>
50930	Gail Clark	Law
61747	Donald Akins	Income Tax

Mr. Rachford made a motion for the Board to accept the report of the Benefits Committee. The motion was seconded by Mr. Pickering and carried by the Board.

## **INVESTMENT COMMITTEE**

Mr. Moller reported that the Investment Committee met on December 3, 2004. At that meeting, the Committee reviewed the 3<sup>rd</sup> quarter performance report presented by the Investment Consultant. As of 9/30/04, the investment return of the total fund was 3.14%, outperforming the Cincinnati index that returned 2.74%. Over the last one-year period, the total fund return was 12.00% compared to 12.02% for the Cincinnati index.

Mr. Moller indicated that no changes were made to the status of investment managers currently on the watch list. Pan Agora and Mondrian Investment Partners (formerly Delaware Advisors) are on the watch list due to organizational restructuring, and Navallier is on the watch list for under-performance as well as the departure of the portfolio manager on the CRS account.

## **SECRETARY'S REPORT**

The Secretary submitted the following report:

1. Resolution for Enrollment of New Members – Total: 13
2. Resolution for Return of Contributions & Death Benefits– Total: 38  
Amount: \$251,527.52
3. Resolution for Loans to Members – Total: 74 Amount: \$666,694.75
4. Report on Deaths of Pensioned Members – Total: 14
5. Report on Military Service Credit prior to Membership - 3

The Secretary submitted the following vouchers for payment:

<b>PAYEE</b>	<b>AMOUNT</b>
Mercer Human Resource Consulting – Professional Services Rendered	\$26,707.00
Mellon Consultants LLC – Professional Services Rendered	\$983.00
Paul T. Hogle, MD – Payment for Medical Disability Exams	\$1,245.00
All Star Personnel Inc. – Temporary Personnel Services	\$1,956.76
Judges' Committee on Notaries Public – Notary Renewal for Linda Johnson	\$75.68
City of Cincinnati Printing Services – For Postage charges for Nov 2004	\$1,947.62
Business Information Solutions Inc. – Storage of CRS files	\$55.44
ABS Business Products Inc. – Monthly rental base rate for copier	\$238.50
City of Cincinnati Finance Accounts & Audits – Billing for accounting services performed by Accounts & Audits	\$33,208.18
Joe Harrison, Sr. – Reimbursement for Conference Expenses	\$116.25
NCPERS – 2004 Annual Membership Dues	\$300.00
Time Value Software – Financial Retirement Calculators	\$100.00
City of Cincinnati Communications Technology Services – Telephone Services for Nov 2004	\$357.00
All Star Personnel Inc. – Temporary Personnel Services	\$2,217.37

The Cincinnati Enquirer – Advertising Publication for Pension Fund Manager	\$1,586.24
Mercer Human Resource Consulting – Professional Services Rendered	\$23,327.00
Squire Sanders & Dempsey LLP – Professional Services Rendered	\$4,116.19
V. Daniel Radford – Reimbursement for Conference Expenses	\$2,888.04
John Walsh – Reimbursement for Board Members Conference luncheon	\$1,309.00
Mae Consulting – Professional Services Rendered	\$360.00
City of Cincinnati Communications Technology Services – Telephone Services	\$100.00
Postmaster Cincinnati – Annual fees for Business Reply Mail and Mail Accounting Fees	\$625.00
Craine Communications Inc. – Professional Services Rendered	\$2,128.00
City of Cincinnati Printing Services – Printing & Postages charges for Dec 2004	\$5,827.03
City of Cincinnati Accounts & Audits – Cinsy Billing for Aug-Oct 2004	\$20,672.88
Business Information Solutions Inc. – Storage of CRS files	\$56.27
City of Cincinnati Stores – Billing for items for Dec. 2004	\$146.45
All Star Personnel Inc. – Temporary Personnel Services	\$1,008.56

The Secretary reported that at the close of business December 31, 2004, there was in the Treasury to the credit of the Retirement System the amount of \$9,718,009.69

**Asset Valuation:**

- December 31, 2003: \$2.29 billion
- November 30, 2004: \$2.33 billion
- YTD Increase (Decrease): 1.65%

**Current Asset Allocation: (Policy Objective)**

- Domestic Equity: 52.1% (50%)
- International: 14.1% (13.5%)
- Fixed Income: 33.1% (33.5%)
- Alternative Assets/Treasury Cash: 0.7% (3%)

**PENDING BUSINESS**

Mr. Radford began the discussion by informing the audience that the Board has been working for some time on a plan that would improve the long-term financial health of the CRS. The Board's objective is prepare a recommendation for City Council that could be then be discussed by retirees, active members, and taxpayers at a public hearing.

Mr. Gary Dickson, the retirement system actuary from Mercer Human Resources Consulting, began the discussion by commenting that if no changes are made to the current plan design and all other assumptions are met, the CRS will be under-funded by about \$21.5 million per year. This would result in the funding status of the plan, which is under-funded at 94% as of the December 31, 2003 actuarial valuation, to continue to drop by about 1% per year.

Mr. Dickson reviewed the latest plan that was discussed at the December 16, 2004 working meeting. The details of that plan are as follows:

- 1) Total contributions should be increased by 1.5% of pay;
- 2) The retiree medical plan would be the same as active employees effective in 2005, except for the “protected group”. (The protected retirees are those who did not have the 2.22%/2.50% formula and are now over age 65, or are retired as a disability, or are receiving survivor death benefits.) The retiree plan would include a \$1,000 per person out-of-pocket limit on prescription drug coverage.
- 3) The medical funding ratio target would be reduced to 80%;
- 4) The assumed investment return would be reduced to 8.25%;
- 5) Actuarial value of assets would be restated to the 12/31/2003 market value;

Mr. Dickson indicated the required contribution rate under this plan would be 20.1% of pay. Reducing investment costs by about \$1 million per year would make up the difference between this 20.1% and the total contribution rate of 19.5%.

One alternative discussed at the 12/16/04 meeting was to require the “protected group” to pay a 50% premium share and use the reduction in liability to further reduce out-of-pocket limit on prescription drugs. Mr. Dickson reported that this alternative would allow the prescription limit to be reduced to \$775 per person with no change in the total funding contribution.

A second alternative would require the “protected group” to pay a 100% premium share and use half the reduction in liability to also reduce the out-of-pocket limit on medical costs. Mr. Dickson reported that this alternative would allow the medical limits be reduced from \$1,500 single/ \$3,000 family to \$1,050 single/\$2,100 family. A pole of the individual Board members gave a preference to using this second alternative in the proposal.

Mr. Ryder asked if it would be feasible to reset the actuarial value of assets to the 12/31/04 market value of assets instead of the 12/31/03 market value. Mr. Dickson commented that the 2004 returns would not have an impact on the required contribution rate until the year 2006, and that the Board should be careful about immediately recognizing good returns and smoothing bad returns. He also commented that if the Board were to use the 12/31/04 asset value, they should also update the liability structure as of 12/31/04. Mr. Dickson commented that this is not usually completed until the May Board meeting.

Mr. Moller commented that there seems to be a belief by some Board members that if the Board waits long enough, the long-term funding problem may resolve itself. Mr. Moller commented that the Board must take some action for the CRS to remain financially solvent. Mr. Radford commented that the Board has been dealing with this issue for a long time, and he is ready to take some action. Mr. Rachford commented that he agrees something needs to be done, but it seems the Board has really pushed the issue over the last three months. Mr. Rachford thinks we should wait a little while longer as the investment gains from 2004 could be used to offset some of the increased costs being

imposed on retirees, active members, and taxpayers. Mr. Ryder agreed that all groups should share the increased cost burden, but using the 2004 market value would decrease the total cost burden. After discussion and a pole of the individual members, the Board agreed to use the 12/31/2003 market valuation in their recommendation to City Council.

Mr. Pickering indicated that the original proposal required investment savings of \$2 million, and the latest version has reduced these required savings to about \$1 million. He would like to revisit the objective of saving \$2 million annually and use these savings to offset some of the other costs. Mr. Radford commented that use of passive investment management to reduce costs could very well result in reduced investment gains, and he is not comfortable with this proposal.

Mr. Ryder indicated that he is not comfortable with two of the fundamental assumptions; reducing the assumed investment return to 8.25% and using the 12/31/2003 market valuation to reset the actuarial valuation of assets. He is also not comfortable with establishing two classes of retirees. Mr. Ryder commented that there were some catch-up benefit enhancements provided to pre-1998 retirees, so the higher benefit formulas granted to post 1998 retirees may not have created as great a difference between these groups as is perceived. Mr. Dickson commented that the pre 1998 retirees were granted a retroactive 3% compound COLA as well as dental and vision benefits. The post 1998 retirees were granted the 3% compound COLA, the dental and vision benefits, and the increased multiplier, which was an across the board 11% increase in the pension benefit.

Mr. Rachford commented that dividing the retirees into these two groups could lead to age discrimination issues. Ms. Deborah Wyler of the City Law Department commented that it is not an age discrimination issue, as it is based on year of retirement, not age.

Mayor Luken commented that he understands that in making these decisions, we need to make certain assumptions. He also understands the CRS faces some problems and that the Board needs to do something. He stated that the Board should make a decision and take some action. Failure to do so will put the issue on City Council, and then City Council will take action. He stated that the discussion should focus on what is fair for all groups. The vast majority of comments from retirees have said the city and the active members should pay more, but the retirees should be left alone. Mayor Luken commented that is not constructive or fair.

Mr. Radford commented that it is critical that the Board go forward with a recommendation. Otherwise, City Council could implement their own plan without any input from the Board. Mr. Moller moved that the following proposal be approved for distribution by the Retirement Board to City Council to secure the long-term financial solvency of the CRS. The motion provides for a 30-day period for the Board to accept comments on the proposal from retirees, active members, and taxpayers, as well as the Board holding of a public hearing on the proposal. Mayor Luken seconded the motion. The proposal is as follows:

- 1) Reset actuarial value of assets to market value of assets as of 12/31/2003;
- 2) Reduce assumed investment return from 8.75% to 8.25%;

- 3) Reduce medical funding target from 100% to 80%;
- 4) Increase total payroll contributions from 18.0% of pay (11.0% employer contribution and 7.0% employee contribution) to 19.5% of pay. City Council would determine the distribution of the increase;
- 5) The retiree medical plan would be the same as active employee's plan except for the protected group. (The protected group is retirees who retired with a 2.0%/2.25% multiplier and are over age 65 (now or in the future), disability retirees, and members who are receiving survivor death benefits. The protected group will continue to receive the current medical plan services).
- 6) The "protected group" of retirees would pay the same monthly premium as all retirees (\$12.66 individual and \$34.98 family for 2005). All other costs for the "protected group" would not change.
- 7) The following out-of-pocket limits apply to the non-protected retirees subject to the 80/20 Health Care Plan
  - Prescription drug coverage: \$775 per person
  - Medical: \$1,050 single/ \$2,100 family (in-network)  
\$2,100 single/ \$4,200 family (out-of network)
- 8) Reduce investment expenses by approximately \$1 million to lower the total contribution of 20.1% needed under this proposal to the 19.5% contribution target.

The vote on the motion was 5 members (Luken, Radford, Lemmie, Cranley, and Moller) in favor of the motion and 3 members (Ryder, Pickering, and Rachford) opposed to the motion. (3 Board Members were absent from the meeting.) The motion failed, as it did not receive the six votes required for the Board to pass a motion.

Mr. Ryder commented that he would not support the motion unless the 12/31/2004 market valuation date is used. Mr. Moller commented that if they wait until the actuarial valuation is done in May, the delay would result in not getting a recommendation to City Council before their summer recess. Mr. Moller stated that the Board cannot wait that long to take action.

### **ADJOURNMENT**

Upon request of the Chairman for a motion to adjourn, the motion was made by Mr. Rachford, seconded by Mr. Moller and carried by the Board. The meeting was adjourned at 3:05 p.m.